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NABE Policy Survey

ECONOMISTS SEE MONETARY POLICY HEADED IN RIGHT DIRECTION; EXPECT 1991 DEFICIT WELL IN EXCESS OF $250 BILLION; SEE BUDGET AGREEMENT LOWERING 1991 GNP, BUT LONG-RUN GROWTH RATE INCREASED.

December, 1990

This report presents the responses of over 250 NABE members to a survey on economic policy issues conducted in late November, early December. This survey is one of three taken regularly by NABE; the other inquiries are the NABE Outlook and the NABE Industry Survey. For NABE membership information contact the address below.

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Highlights

* A majority of analysts believe that monetary policy is about right, but of those dissenting, those who believe policy is too tight outnumber those who believe it is too stimulative by a margin of more than 11 to 1.

* Over 90 percent of the respondents expect monetary policy to ease over the next 6 months. One-half correctly expected the fall in the discount rate and anticipate other easing measures.

* One-half of the respondents expect the 1991 unified budget deficit to be between $250 and $300 billion while one-fourth expect it to be over $300 billion.

* The recent budget agreement is expected to lower the 1995 deficit to between 1 and 3 percent of GNP according to more than two-thirds of those responding.

* Although a majority expect the budget agreement to lower 1991 GNP growth, 54 percent expect the long-run growth rate to be increased.

* Only one-third of analysts believe that the costs of the Clean Air Act outweigh its benefits, while 56 percent believe that the benefits will exceed costs.

* A majority of respondents feel the liquidation of RTC asset holdings is proceeding too slowly (28%) or slower than expected (45%), with a similar majority (68%) raising the undiscounted estimate of the bailout cost to over $600 billion.

* Over 60 percent of analysts believe that a credit crunch has developed, and of those, a majority believes that it is primarily caused by excessive regulatory enforcement by bank examiners.

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Monetary Policy

The proportion of respondents believing that monetary policy is "about right", which had fallen sharply between the late May survey (79%) and the August survey (42%), rose to 58% in this latest survey. About 39% still believe that policy is too restrictive, but this is down from 56% in August. Only 3% believe policy is too stimulative. Clearly the panel feels the Fed has moved in the right direction.

The shift, over the last six months, in the panel's view of the issue most likely to influence monetary policy is most interesting. In the May survey, the panel was narrowly split, with 48% viewing inflation and inflationary expectations as the most likely influence, and 42% seeing economic growth as the key. In the August survey, a marked shift began to occur: 55% viewed economic growth as the most likely influence while only 30% thought it would be inflation. The shift continued in this latest survey with 78% now viewing economic growth as the most likely influence and only 18% seeing inflation as the key influence.

About 50% correctly expected a fall in the discount rate as part of a series of easing moves, while 40 percent thought that reserves would be eased without lowering the discount rate. Less than 10 percent thought that the Fed would remain neutral or tighten.

A bare majority of respondents (51%) believes that the level of the Federal funds rate provides the best measure of the current thrust of monetary policy. About 21% prefer to use the rate of growth of the real money supply and 13% rely on the growth of the nominal money supply. About 9% prefer the growth rate of total reserves or the level of borrowed reserves.

The Federal Budget Agreement

Despite the recent budget agreement, 50% believed that the unified deficit would rise from $220 billion in 1990 to between $250 and $300 billion in 1991. About 21% thought that it would be over $300 billion in 1991. Only 29% expected a deficit less than $250 billion.

The vast majority of respondents were, however, more optimistic that the deficit would be lowered in the longer run. About 67 percent expected the agreement to lower the budget deficit to between 1 and 3 percent of GNP in 1995, assuming an unemployment rate of 6% in that year. About 24% thought the 1995 deficit would exceed 3% of GNP while 9 percent expected a deficit less than 1% or a surplus.

A plurality (48%) thought that the agreement would be contractionary in the short run, lowering 1991 GNP by between 0 and 0.5%. About 34% thought that it would have no measurable impact in the short run. About 9% thought that 1991 GNP would be raised by the agreement while the same number thought that GNP would be lowered by more than 0.5%

A slightly more optimistic view was taken of the agreement's impact on the rate of economic growth in the longer run. By a bare majority (54% to 46%), respondents believed that the agreement would raise the rate of economic growth over the next 5 years. A plurality (42%) thought that the increase would be between 0 and 0.3% per year. An almost equal number (38%) thought that the annual rate of growth would be lowered between 0 and 0.3% About 12 percent thought that the long-run growth rate would rise more than 0.3% while 8% believed it would be lowered by that amount.

There was little hope that the agreement would enhance private saving. Over 90% believed that the agreement would either reduce private saving (35%) or have no measurable effect (58%).

State and Local Government Fiscal Policies

About 65% expected state and local fiscal policy changes to have a contractionary impact on GNP in 1991. About 29% thought that such policies would have no measurable effect on the economy while 5 percent expected an expansionary impact.

Regulatory Policies

The Clean Air Act received generally favorable marks from respondents. About 23% thought that its benefits would exceed its costs by more than 10 percent, while 33% believed that benefits exceeded costs by less than 10%. About 10% thought that benefits and costs were about equal and 34% thought that costs exceeded benefits. A significant minority (16%) thought that the excess of costs over benefits exceeded 10%.

More generally, an overwhelming majority (70%) believed that the regulatory efforts of the Administration, the Congress and the independent agencies were aimed at achieving important economic and social goals, but that they were doing this in an economically inefficient manner. About 18% thought that the goals were important and that they were being addressed efficiently while 12% thought that the goals of recent regulatory efforts were relatively unimportant.

The Thrift Bailout

Most analysts believed that the RTC was liquidating its asset holdings either far too slowly (28%) or slower than expected (45%). Only 22% thought that the pace of liquidation was about right while a tiny minority thought the speed was faster than expected (3%) or much too fast (1%). About 69 percent of analysts have raised their estimate of the cost of the bailout while 31% have lowered their estimate. A majority (68%) now put the undiscounted cost of the bailout at over $600 billion.

In responding to a series of questions regarding the effects of RTC asset liquidations on real estate property values, 78% thought that there was no noticeable negative effect on the value of single-family housing; 76% saw no effect on multi-family values; 69% saw no effect on commercial property values; and 78% thought that the value of land was not affected. The limited impact on values, plus the higher bailout cost corresponds to the group that feels liquidation is proceeding too slowly or slower than expected.

A Credit Crunch?

About 61% of the respondents thought that a credit crunch had developed. Of those who detected a credit crunch, 53% believed that it primarily resulted from excessive regulatory enforcement by Federal examiners that caused overly risk-adverse behavior. About 32% thought that the crunch resulted from increased capital requirements for financial institutions and 11% thought that it was primarily caused by the collapse of the junk bond market and the inability of other institutions to fill that void. Only 4% thought that the crunch was primarily the result of excessively tight monetary policy.

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NABE Policy Survey

ECONOMISTS STRONGLY ENDORSE GATT TALKS AND NORTH AMERICAN FREE TRADE

March, 1991

This report presents the responses of over 200 NABE members to a survey on economic policy issues conducted in early March. This survey is one of three taken regularly by NABE; the other inquiries are the NABE Outlook and the NABE Industry Survey. For NABE membership information contact the address below.

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Highlights

* The number of respondents believing that monetary policy is about right remained at 58%, the same level as in the last survey. Only 1 of the over 200 respondents thought that monetary policy was too stimulative. The remainder (41%) thought that it was too tight.

* Almost 70 percent of respondents thought that monetary policy would ease over the next six months while 28% thought it would remain neutral. Only 2.5% expected a tightening of policy.

* Over 70% of respondents thought that the international coordination of monetary policies was unlikely to be effective, but 59% thought that efforts at coordination would become more common in the future.

* A slight majority of respondents (56%) thought that the official OMB-CBO forecasts of about zero real economic growth for 1991 and about 3.2% for 1992 were about right, but those who thought that both agencies were too optimistic outnumbered those who thought they were too pessimistic by almost 3 to 1.

* A slight majority (51%) believed that the Gramm-Rudman budget process had no significant effect on the 1990 deficit while 37% believed that the deficit was lower than it would have been in the absence of Gramm-Rudman. The remainder (12%) believed that the process so reduced the efficiency of decision making that it raised the deficit.

* Great cynicism was expressed toward the new budget process created in October of 1990. Almost 70% thought that, by 1995, spending would exceed the levels prescribed by the new rules by over $25 billion. A bare majority (52%) thought that the 1995 deficit would be between $100 and $200 billion, almost 20% thought that it would exceed $200 billion and only one respondent thought the budget would be balanced.

* A large majority of 68% thought that a constitutional amendment requiring a balanced budget would be ineffective.

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* The panel generally approved Bush Administration budget initiatives. On a scale running from 1 to 5, where 3 indicated neutrality, 3 of the 11 initiatives identified were given an average score of above 4. These three included educational reform, R & D initiatives, and financial sector reform. Only one, the drug abuse initiative scored less than 3.

* A large majority of 64% favored a capital gains tax cut and believed that it would have a measurable, favorable effect on the future rate of economic growth. The panel was in disagreement over its effect on Federal revenue. About 39% thought that there would be no effect on revenues; 36% thought that revenues would be raised; and 25% thought that revenues would be lowered.

* A huge majority of 93% favored pursuing a successful conclusion to both the GATT talks and North American free trade. A more subdued majority of 56% forecast that the GATT round would ultimately be successful.

Monetary Policy

About 58% of respondents believed that monetary policy was "about right", the same level that had approved monetary policy in the November survey. The number believing that monetary policy was too restrictive rose slightly from 38 to 41 percent while those believing that monetary policy was too stimulative fell from 3 to 0.5 percent. It is interesting to note that only one respondent in the latest survey thought that monetary policy was too stimulative.

The proportion of respondents believing that monetary policy would be most affected by concerns related to economic growth also remained almost constant at 77%. However, the proportion thinking that the Fed would be motivated by a fear of inflation fell from 18 to 13 percent.

The proportion of those believing that the Fed funds rate is the best indicator of monetary policy fell from 55 to 45 percent while those favoring the real or nominal money stock growth rose from 34 to 41 percent. Those watching total or borrowed reserves rose from 9 to 12 percent.

About 28% of respondents expected monetary policy to remain neutral while almost 70% expected further easing with 27% expecting that the move to ease would include a reduction in the discount rate while 43% did not. Only 2.5% or 5 respondents expected monetary policy to tighten.

International Coordination of Macro Policies

A large majority of 71% believed that "Individual countries should choose the monetary policy that is warranted by their own circumstance, because efforts to coordinate policies are unlikely to be effective." Of the 29% favoring greater coordination, 61% thought that the Bundesbank should lower German interest rates, while 39% thought that the Fed should avoid lowering interest rates to stay in line with Bundesbank policy goals. Although a large majority opposed greater coordination, 59% expected greater efforts to coordinate policies in the future.

Fiscal Policy

The forecasts for economic growth for 1991 and 1992 released by CBO and OMB were almost identical, with OMB being slightly more pessimistic. The CBO and OMB projected year-over-year growth rates for 1991 are 0.0 and -0.3 percent and those for 1992 are 3.3 and 3.1 percent, respectively. About 55% of respondents favored OMB's more pessimistic outlook, but about 56% thought that both forecasts were about right. About 31% thought that both agencies were too optimistic while 11 percent thought that both were too pessimistic. The remainder volunteered differing views of the two years with 2% saying that both were too pessimistic about 1991, but too optimistic about 1992.

For the longer period, 1990 through 1996, 69% thought that economic growth would average in the range of CBO's assumed 2.4% per year and OMB's 2.6%. About 21% thought that both agencies were too optimistic whereas 10% thought that both were too pessimistic.

The two agencies also project similar paths for 91 day T-bill rates and for the rate of inflation. After a slight rise to 7.0% in 1992 from 6.6% in 1991, CBO expects T-bill rates to fall smoothly to 5.7% in 1996. OMB expects a steadier fall from 6.4% in 1991 to 5.3% in 1996. About 49% of respondents thought that rates would vary in the range projected by the two agencies while 44% thought both forecasts were too low and 7% thought that they were too high.

CBO expects CPI growth of 4.9% in 1991 and projects inflation to be more or less constant in the 3.5 to 3.6 percent range from 1992 to 1996. OMB expects a steady fall in the rate from 5.2% in 1991 to 3.3% in 1996. A majority of respondents (54%) thought that both agencies were too optimistic about inflation; 39% thought that the forecasts were about right; and 7% thought that inflation would be lower over the period.

Over the longer ran, CBO expects the unified budget deficit to decline from $215 billion in 1993 to $56 billion in 1996. OMB expects a greater decline from $202 billion in 1993 to a surplus of $20 billion in 1996. An overwhelming majority of 92% thought that CBO's more pessimistic view would be closer to the mark. Indeed, 20% of the respondents thought that the 1995 deficit would exceed $200 billion and 52% thought that it would be between $100 and $200 billion. Only one respondent thought that the 1995 budget would be balanced.

The panel had little faith that the Congress could invent a budget process that improved the deficit outlook. A bare majority of 51% thought that Gramm-Rudman had had no significant effect on deficits. About 37% thought that the 1990 deficit was lower than it would have been without Gramm-Rudman, but 12 percent thought that it was higher because of the inefficiencies in decision making encouraged by the law. A large majority of 68% thought that the rules of the new process invented in October 1990 would be violated to the extent that 1995 spending would be more than $25 billion higher than if the new rules worked perfectly. Only 32% thought that we would come within $25 billion of perfection. The more radical approach of enacting a constitutional amendment requiring a balanced budget was also favored by 32% of respondents. About 68% thought that such an amendment would be ineffective.

Persian Gulf War

Questions regarding the Persian Gulf War were rendered obsolete by the remarkable success of Desert Storm. But it is, nevertheless, interesting to note that 43% thought that a long war would have had a contractionary impact on the economy while only 17% thought that it would be stimulative. The rest thought that the economic impact would be neutral.

If the cost of the war had exceeded $50 billion after allied contributions, only 14% thought that the war should be financed entirely by borrowing. The same proportion favored financing it all with civilian spending cuts; 20% favored a special tax increase; 16% favored a combination of tax increases and civilian spending cuts; and a plurality of 37% favored a combination of spending cuts, tax increases and borrowing.

Bush Budget Initiatives

Respondents were asked to rank the following budget initiatives on a scale of 1 to 5 depending on their economic merit and their political feasibility. A score of 3 meant that the respondent was neutral as to the economic merit of the proposal and thought that it had a 50/50 chance of being enacted into law. On political feasibility 7 of the 11 initiatives were judged to have less than a 50/50 chance of passage. The mean score of each initiative is provided in the table on the next page.

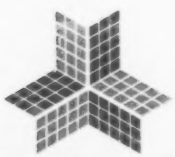
Proposal	Economic Merit	Political Feasibility
Educational reform	4.24	3.31
R & D initiatives	4.03	3.06
Financial sector reform	4.11	3.47
Incentives for saving and investment	3.62	2.77
Entitlement reform (mostly medicare)	3.52	2.40
Health system reform outside of medicare	3.64	2.47
Drug abuse reduction	2.78	3.16
Housing policy reform	3.11	2.63
Transportation infrastructure improvement	3.78	2.99
Government management reform	3.99	1.99
Transferring programs and funding to states	3.30	2.83

Capital Gains Tax Cut

The panel was generally supportive of the Administration's efforts to cut capital gains taxes as part of their efforts to stimulate savings and investment. Almost two-thirds (64%) favored capital gains tax cuts. About 43% thought that it would raise the long-run rate of economic growth by more than 0.1 percentage points annually and 21% thought that the increase would be between 0 and 0.1 percentage points. Only 23% thought that there would be no effect on economic growth while 12% thought that growth would be lowered because the tax cut would raise the budget deficit. Only 36% thought that government revenues would be raised by the tax cut; 25% thought that revenues would be lowered; and 39% thought that there would be no significant effect on revenues.

Trade Policy

The panel remains strongly committed to free trade. About 93% of respondents thought that the Administration should pursue both the GATT negotiations and North American free trade. Only 7% thought that the former should be abandoned in favor the latter, and only one respondent thought that neither should be pursued. About 67% thought that it was worthwhile for Congress to renew "fast track" authority, even though only 56% thought that the resumption of the GATT negotiations will lead to a worthwhile conclusion.



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NABE Policy Survey

NABE ECONOMISTS DO NOT ENDORSE A STIMULATIVE FISCAL PACKAGE

February, 1992

This report presents the responses of over 230 NABE members to a survey on economic policy issues conducted in late January and early February. This survey is one of three taken regularly by NABE; the other inquiries are the NABE Outlook and the NABE Industry Survey. For NABE membership information contact the address below.

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Highlights

* Fifty eight percent of NABE's Economic Policy Panel do not favor a stimulative fiscal package in 1992. Fiscal policy is currently viewed as "about right" by 37% of the panel, while 36% say it is "too stimulative". Interestingly, economists *prefer* that fiscal policy stay neutral despite President Bush's State of the Union initiatives.

* *However*, if a package were adopted this year the favored options include 1) capital gains tax reduction, 2) investment tax credit increase, 3) increased public works spending, 4) higher gas taxes, and 5) elimination of dividend taxation. And, economists *do expect* that policy will turn stimulative, by a wide majority .

* Current monetary policy is viewed as "about right" by 61% of NABE's Policy Panel, although 32% felt that current policy is still too restrictive. Most economists felt that economic growth should be the primary objective of monetary policy rather than concern about foreign debt or inflation.

* Deposit insurance costs are perceived to be quite different by those surveyed compared to OMB estimates. A majority of economists expect insurance costs to range $175 to $250B over the 1991-96 period compared with official mid-year OMB estimates of $142.5B over the same period.

* Nearly 87% (194 of 224 economists surveyed) believe that dynamic revenue estimates should be considered in the budget process.

* A mandated health program is favored by a majority of respondents where the government mandates coverage but the private sector continues to set prices and provide payment.

* GATT remains a poor bet with more than half of respondents giving its conclusion in six months less than a 50 percent chance.

* As to our apparent lack of competitiveness with Japan, the primary causes given were ineffective U.S. management (37%), noncompetitive products (22%) or faulty economic policies (22%). Only 14% felt it was due to trade barriers in Japan.

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Monetary Policy

Current monetary policy is judged "about right" by 61% of the survey panel, while 32% feel it is "too restrictive" and 7% believe it is "too stimulative".

Over the next six months, 52% of the panel would *prefer* monetary policy to remain unchanged; a somewhat smaller 44% *expect* it to remain so. Forty percent of the panel would *prefer* monetary policy to be more stimulative over the next six months while 52% *expect* it to be so.

Nearly 50% of the panel believes the Fed Funds rate provides the best indicator of monetary policy. Twenty percent, however, focus on real money growth rates, while 12% follow nominal money growth rates and 10% track the growth rate of total reserves.

Economic growth is expected to influence monetary policy the most (chosen by 75% of the panelists) in the next six months with foreign debt next (13%) and inflation a poor third at 7%. In response to another question, economists preferred economic recovery to be the Fed's top priority. So here, at least, expectations match preferences.

Fiscal Policy

Based on the latest information available, 37% of the panel felt current fiscal policy was "about right", but 36% felt it was " too stimulative". The remaining 27% felt it was "too restrictive".

Looking ahead (over the next 6 months), there is no clear preference regarding the stance of fiscal policy. Thirty nine percent would *prefer* it to remain unchanged, but 31% would prefer it more stimulative while 30% would prefer it more restrictive. When it comes to expectations, however, nearly 80% *expect* fiscal policy to be more stimulative over the next six months while only 20% expect it to remain unchanged.

Which deficit matters for economic activity? Economists clearly watch the unified deficit. It is also the unified deficit that matters most for financial markets and interest rates. The deficit ex-deposit insurance and Desert Storm is not viewed as very important to economic activity.

More than half of those surveyed expect the cumulative cost of deposit insurance to exceed $175B over the 1991 - 1996 period compared to the $142.5B estimated by OMB at mid-year.

Dynamic revenue estimates should be taken into account when Federal officials make revenues estimates of policy changes. Current tax policy considers only "static" revenue estimates.

In addition, revenue estimates from an independent (of Federal government) source are favored two to one by survey participants. Non-government consultants are the first choice for these estimates although consensus estimates also received considerable support.

A clear majority (58%) of economists oppose a stimulative fiscal package in 1992. Not since the Nixon wage-price controls has a clear majority of economists opposed a major economic program.

Deficits would rise an average of $25 billion a year in fiscal years 1993 to 1995, if a stimulative package was adopted, according to a majority of economists. The fiscal package is clearly not expected to be deficit neutral.

If a stimulative package is implemented in 1992-1993 the following options would be favored:

1) permanent capital gains tax reduction
2) permanent investment tax credit
3) increased public works spending
4) permanent gas tax increase
5) eliminate dividend taxation

Options that drew a neutral response included 1) reduced payroll taxes 2) increased taxes on high income individuals, 3) increased poverty spending.

Disapproval was the verdict for the following options,

1) lower middle class taxes
2) allow IRA withdrawals with 2 year payback
3) $2,000 tax credit for home purchases

If long term growth is the preference, then economists surveyed favor four options:

1) reduced capital gains tax
2) eliminate taxation of dividends
3) reinstate investment tax credit
4) increase public works spending

A clear majority (65%) of respondents feel the budget deficit is having a negative impact on private capital formation. That is, the U.S. economy is experiencing a crowding out of private investment. Real interest rates are higher due to the high/sustained budget deficit. That's the opinion of more than three quarters of all economists surveyed.

Something More Fundamental Than a Credit Crunch

A wide majority of economists surveyed (173 to 56) feel that the financial system is experiencing something more fundamental than a typical credit crunch. Three options are favored to deal with this issue. In order of preference, those surveyed favored 1) removing restraints on interstate banking, 2) limiting deposit insurance and 3) lowering interest rates. Two options not favored at all included a) allowing other corporations to acquire commercial banks and b) allowing commercial banks to sell insurance and other financial services.

Health Care: What to Do?

Lack of health insurance coverage is viewed as a very serious problem that should be solved by a mandated program - at least that's what the majority (58%) of respondents believe.

But those respondents favoring a mandated program do believe the private sector should continue to set prices and provide payments while the unemployed are covered under a government program.

There is no free lunch. The majority of respondents believe that any mandated program would increase labor costs and have a negative, measurable, impact on employment and economic growth. Also, almost one-half of those surveyed expected that a mandated program would raise the measured CPI - medical services component.

Trade: GATT, NAFTA and Super 301

Optimism on trade is not widespread among survey respondents. Less than 50 percent expect that GATT negotiations will be concluded successfully within the next six months. Only a tiny fraction of those surveyed expect the North American Free Trade Agreement (NAFTA) will be successfully concluded in 1992. Moreover, only about half of those surveyed expect NAFTA to be successfully concluded by 1993.

How significant are these trade initiatives to U.S. growth? Barely a majority believe that GATT is "somewhat significant" - hardly a ringing endorsement. NAFTA does better with large pluralities believing it is "very significant" or "somewhat significant." Only ten percent felt NAFTA was "not significant." Bilateral trade negotiations also received just a lukewarm majority in favor of "somewhat significant."

A two tier approach to trade - both bilateral and multilateral was favored by the respondents. Enforcement of Section 301 did not receive support as a basis for U.S. trade policy.

Lack of Trade Competitiveness with Japan.

Many reasons were offered for why U.S. firms appear to lack competitiveness versus Japanese firms. In order of ranking, our respondents noted:

1) ineffective U.S. management
2) non-competitive products
3) faulty U.S. economic policy
4) trade barriers in Japan

Two reasons that did not receive very much support were a) an overvalued dollar and b) noncompetitive wages.

Would the reactivation of Super 301 increase or decrease U.S. competitiveness in trade? Respondents were fairly evenly split between "decrease" and "no difference." Only 13 percent of those surveyed thought that reactivation of Super 301 would increase U.S. competitiveness.

Aid to The CIS (Formerly USSR)

Only emergency food and medical (humanitarian) assistance should be provided. That's the verdict of the clear majority of economists. "Immediate and significant assistance" did receive some support (39% of respondents).

How much aid? Economists were split evenly between maintaining the current level of $3B and increasing that amount. What form of aid? A coordinated approach with other nations was the clear majority choice. Independent aid was favored by only ten percent of those surveyed. In response to a final question, the survey panel favored aid to individual states by a clear majority to the alternatives of either a) diplomatically recognized states or b) a central coordinating political body.

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